

CITY OF MONTEZUMA, IOWA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2012

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City of Montezuma, Iowa
City Officials
Year Ended June 30, 2012

<u>Name</u>	<u>Title</u> (Before January 2012)	<u>Term</u> <u>Expires</u>
James M. Hicks	Mayor	January, 2012
Frank R. Brownell, III	Mayor Pro Tem	January, 2012
Ronald Willrich	Council Member	January, 2012
Ronald Hedrick	Council Member	January, 2012
Mark Bolen	Council Member	Resigned December 2011
Donald Vos	Council Member	January, 2014
Meryll Hicks	Clerk/Treasurer	Indefinite
William J. Sueppel	Attorney	Indefinite
(After January 2012)		
James M. Hicks	Mayor	January, 2016
Frank R. Brownell, III	Mayor Pro Tem	January, 2016
Ronald Willrich	Appointed Council Member	January, 2014
Donald Vos	Council Member	January, 2014
Aaron Mc Clasen	Council Member	January, 2016
Corey Simpson	Council Member	January, 2016
Meryll Hicks	Clerk/Treasurer	Indefinite
William J. Sueppel	Attorney	Indefinite



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Van Maanen, Sietstra & Meyer, PC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Montezuma
Montezuma, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and aggregate remaining fund information of the City of Montezuma, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Montezuma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 23, 2012, on our consideration of the City of Montezuma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma's basic financial statements. Another CPA firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ending June 30, 2004 and we audited the financial statements for the seven years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with another comprehensive basis of accounting. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma's basic financial statements. Management's Discussion and Analysis and Budgetary Comparison Information on pages 5-9 and 26-27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

October 23, 2012

The City of Montezuma provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 8.3%, or approximately \$89,000, from fiscal 2011 to 2012.
- Disbursements of the City's governmental activities increased 12.5%, or approximately \$131,000 from fiscal 2011 to fiscal 2012. Public safety expenditures were up \$102,000 due to purchasing and equipping a new ambulance.
- The City's total cash basis net assets increased 2.2%, or approximately \$91,000 from June 30, 2011 to June 30, 2012. The current year governmental activities decreased \$13,000 and the net assets of the business type activities increased \$104,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds, indebtedness, changes in fiduciary assets and liabilities, a comparative schedule of receipts and disbursements, and the schedule of expenditures of federal awards.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general governmental, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water works, sanitary sewer, recycling, and gas systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax Fund, 3) the Debt Service Fund, 4) the Urban Renewal Tax Increment and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide information for the water, sewer, recycling, and gas funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from approximately \$2.464 million to approximately \$2.451 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in thousands)		
	Year ended June 30,	
	2012	2010
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 95	93
Operating grants, contributions and restricted interest	187	164
Capital grants, contributions and restricted interest	41	34
General receipts:		
Property tax	578	543
Tax increment financing	-	7
Local Option Sales Tax	150	131
Grants and contributions not restricted to specific purposes	-	10
Payment in lieu of taxes	66	48
Unrestricted interest earnings	5	9
Miscellaneous	38	31
Sale of Assets	-	1
Transfer in	-	1
Total receipts and transfers	1,160	1,072
Disbursements:		
Public safety	281	179
Public works	358	326
Culture and recreation	134	144
General government	195	142
Debt service	205	251
Capital projects	-	-
Total disbursements	1,173	1,042
Change in cash basis net assets	(13)	30
Cash basis net assets beginning of year	2,464	2,434
Cash basis net assets end of year	\$ 2,451	2,464

The City's total receipts and transfers for governmental activities increased by 8.2%, or approximately \$88,000. The increase in receipts is mainly due additional debt service property tax receipts. The total cost of all programs and services increased by approximately \$131,000 or 12.5%. The increase in programs and services was primarily due to more public safety expenditures.

The cost of all governmental activities this year was \$1.173 million compared to \$1.042 million last year. However, as shown in the Statement of Activities and Net Assets on page 11, the amount taxpayers ultimately financed for these activities was only \$.850 million because some of the cost was paid by those directly benefiting from the programs (\$95,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$228,000). Overall, the City's governmental activities program receipts increased in 2012 from approximately \$291,000 to approximately \$323,000. The City paid for the remaining "public benefit" portion of governmental activities (\$837,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest, and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in thousands)		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 691	692
Sewer	126	123
Recycling	65	65
Gas	743	812
General receipts:		
Unrestricted interest earnings	1	3
Other general receipts	414	67
Loan proceeds	1,263	364
Total receipts	3,303	2,126
Disbursements:		
Water	2,354	1,097
Sewer	89	83
Recycling	63	63
Gas	693	885
Total disbursements	3,199	2,128
Change in cash basis net assets before transfers	104	(2)
Transfers, net	-	(1)
Change in cash basis net assets	104	(3)
Cash basis net assets beginning of year	1,584	1,587
Cash basis net assets end of year	\$ 1,688	1,584

Total business type activities receipts for the fiscal year were approximately \$3.303 million compared to \$2.126 million last year, mainly due to increased loan proceeds. Total disbursements and transfers for the fiscal year increased 50.5% to a total of \$3.199 million, mainly due to water capital project expenditures.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Montezuma completed the year, its governmental funds reported a combined fund balance of \$2,450,829, a decrease of \$13,133 from last year's total of \$2,463,962.

- The General Fund cash balance decreased \$190,872 from the prior year to \$1,752,524. Public safety expenditures increased over \$102,000 due primarily to purchasing and equipping an ambulance.
- The Debt Service Fund cash balance increased \$259 from the prior year to \$13,947. Debt Service revenue increased over the prior year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$73,091 from the prior year to \$258,748.
- The Special Revenue, Local Option Sales Tax Fund increased \$106,185 from the prior year to \$422,110. Public Works expenditures decreased, Local Option Sales Tax revenues increased and no transfers were needed to Debt Service to make the required debt payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$15,216 to \$650,804, due primarily to loan and grant proceeds in excess of capital project expenditures.
- The Sewer Fund cash balance increased by \$36,367 to \$474,615, which is a similar increase to last year.
- The Recycling Fund cash balance increased by \$1,242 to \$62,375, which is similar to last year.
- The Gas Fund cash balance increased by \$51,165 to \$499,929 due primarily to a decrease in expenditures.

BUDGETARY HIGHLIGHTS

The City's budget was amended during the year for additional public safety, public works, community and economic development and business type activities disbursements.

The City's receipts were \$235,689 more than budgeted, primarily in charges for services.

The City's disbursements were \$2,089,964 less than budgeted, primarily in business type activities. Expenditures did not exceed the budget for fiscal year 2012.

DEBT ADMINISTRATION

At June 30, 2012, the City had approximately \$2,584,000 in bonds and other long-term debt, compared to approximately \$1,481,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30, 2012	June 30, 2,011
General obligation bonds	\$ 920	1,080
Water Revenue-SRF Loan	1,664	401
Total	\$ 2,584	1,481

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$920,000 is below its total calculated constitutional debt limit of approximately \$3.7 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Montezuma's elected and appointed officials considered many factors when calculating the fiscal year 2013 budget. The amounts levied for property taxes increased slightly by 0.86% resulting in an additional \$4,971 over the previous year. The Debt Service obligation for FY 13 increased by \$3,001. The increase in property taxes will be adequate to satisfy the additional Debt Service obligation.

COMPONENT UNIT

The separately issued financial statements for the Montezuma Municipal Light and Power Plant, listed as a component unit on these financial statements, is also available by contacting Meryll Hicks, City Clerk, at the address listed below.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Meryll Hicks, City Clerk, 501 East Main St., Box 314, Montezuma, Iowa 50171.

Basic Financial Statements

City of Montezuma, Iowa
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2012

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets						
	Program Receipts			Primary Government		Component Unit	
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Primary government:							
Governmental activities:							
Public safety	\$ 281,151	89,208	22,140	40,579	(129,224)	-	(129,224)
Public works	357,515	-	138,672	-	(218,843)	-	(218,843)
Culture and recreation	134,210	214	26,074	-	(107,922)	-	(107,922)
General government	194,967	6,070	-	-	(188,897)	-	(188,897)
Debt service	204,876	-	-	-	(204,876)	-	(204,876)
Total governmental activities	1,172,719	95,492	186,886	40,579	(849,762)	-	(849,762)
Business type activities:							
Water	2,353,370	681,883	-	414,383	-	(1,257,104)	(1,257,104)
Sewer	89,388	125,650	-	-	-	36,262	36,262
Recycling	63,488	64,712	-	-	-	1,224	1,224
Gas	692,628	743,345	-	-	-	50,717	50,717
Total business type activities	3,198,874	1,615,590	-	414,383	-	(1,168,901)	(1,168,901)
Total primary government	\$ 4,371,593	1,711,082	186,886	454,962	(849,762)	(1,168,901)	(2,018,663)
Component Unit:							
Municipal Light and Power Plant	\$ 3,366,568	3,471,832	-	-	-	-	105,264
	\$ 3,366,568	3,471,832	-	-	-	-	105,264
General Receipts:							
Property tax levied for:							
General purposes				\$ 372,447	-	372,447	-
Debt service				205,100	-	205,100	-
Local option sales tax				150,447	-	150,447	-
Payment in lieu of taxes				65,651	-	65,651	-
Unrestricted interest on investments				5,003	1,094	6,097	5,872
Loan proceeds				-	1,262,873	1,262,873	-
Miscellaneous				37,981	8,924	46,905	15,165
Total general receipts and transfers				836,629	1,272,891	2,109,520	21,037
Change in cash basis net assets				(13,133)	103,990	90,857	126,301
Cash basis net assets beginning of year				2,463,962	1,583,733	4,047,695	2,190,984
Cash basis net assets end of year				\$ 2,450,829	1,687,723	4,138,552	2,317,285
Cash Basis Net Assets							
Restricted:							
Non-expendable:							
Library Permanent Fund				\$ 3,500	-	3,500	-
Expendable:							
Public Streets				258,748	-	258,748	-
Debt service/improvements				13,947	4,158	18,105	731,263
Memorials/Designated Contributions				38,402	-	38,402	-
Other purposes				422,110	-	422,110	199,000
Unrestricted				1,714,122	1,683,565	3,397,687	1,387,022
Total cash basis net assets				\$ 2,450,829	1,687,723	4,138,552	2,317,285

See notes to financial statements.

Exhibit B

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2012

	Special Revenue					Total
	General	Debt Service	Road Use Tax	Local Option Sales Tax	Non-major	
Receipts:						
Property tax	\$ 372,447	205,100	-	-	-	577,547
Other city tax	-	-	-	150,447	-	150,447
Licenses and permits	4,325	-	-	-	-	4,325
Use of money and property	6,627	35	-	86	-	6,748
Intergovernmental	24,474	-	138,672	-	-	163,146
Charges for service	89,422	-	-	-	-	89,422
Private contributions	64,319	-	-	-	-	64,319
Miscellaneous	103,632	-	-	-	-	103,632
Total receipts	665,246	205,135	138,672	150,533	-	1,159,586
Disbursements:						
Operating:						
Public safety	281,151	-	-	-	-	281,151
Public works	245,790	-	65,581	44,348	-	355,719
Culture and recreation	134,210	-	-	-	-	134,210
General government	194,967	-	-	-	-	194,967
Debt service	-	204,876	-	-	-	204,876
Total disbursements	856,118	204,876	65,581	44,348	-	1,170,923
Excess (deficiency) of receipts over (under) disbursements	(190,872)	259	73,091	106,185	-	(11,337)
Other financing sources:						
Reimbursement of prior year TIF revenues	-	-	-	-	(1,796)	(1,796)
Total other financing sources	-	-	-	-	(1,796)	(1,796)
Net change in cash balances	(190,872)	259	73,091	106,185	(1,796)	(13,133)
Cash balances beginning of year, as restated	1,943,396	13,688	185,657	315,925	5,296	2,463,962
Cash balances end of year	\$ 1,752,524	13,947	258,748	422,110	3,500	2,450,829
Cash Basis Fund Balances						
Nonspendable - permanent endowment library	\$ -	-	-	-	3,500	3,500
Restricted for:						
Debt service	-	13,947	-	-	-	13,947
Public Streets	-	-	258,748	-	-	258,748
Klindt memorial	1,649	-	-	-	-	1,649
Fire Department memorial	28,749	-	-	-	-	28,749
Library Building	8,006	-	-	-	-	8,006
Other purposes	-	-	-	422,110	-	422,110
Unassigned	1,714,120	-	-	-	-	1,714,120
Total cash basis fund balances	\$ 1,752,524	13,947	258,748	422,110	3,500	2,450,829

See notes to financial statements.

Exhibit C

City of Montezuma, Iowa

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Assets

Governmental Funds

As of and for the year ended June 30, 2012

Total governmental funds cash balances (Exhibit A)	\$ 2,450,829
Cash basis net assets of governmental activities (Exhibit B)	\$ 2,450,829
Net change in cash balances (Exhibit B)	\$ (13,133)
Change in cash balance of governmental activities (Exhibit A)	\$ (13,133)

See notes to financial statements.

Exhibit D

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2012

	Enterprise Funds				Total
	Water	Sewer	Recycling	Gas	
Operating receipts:					
Charges for service	\$ 681,883	125,650	64,712	743,345	1,615,590
Miscellaneous	8,924	-	-	-	8,924
Total operating receipts	690,807	125,650	64,712	743,345	1,624,514
Operating disbursements:					
Business type activities	742,491	89,388	63,488	692,628	1,587,995
Total operating disbursements	742,491	89,388	63,488	692,628	1,587,995
Excess (deficiency) of operating receipts over (under) operating disbursements	(51,684)	36,262	1,224	50,717	36,519
Non-operating receipts (disbursements):					
Interest on investments	523	105	18	448	1,094
SRF Loan Proceeds	1,262,873	-	-	-	1,262,873
Intergovernmental	414,383	-	-	-	414,383
Debt Service	(34,104)	-	-	-	(34,104)
Capital projects	(1,576,775)	-	-	-	(1,576,775)
Total non-operating receipts (disbursements)	66,900	105	18	448	67,471
Excess (deficiency) of receipts over (under) disbursements	15,216	36,367	1,242	51,165	103,990
Net change in cash balances	15,216	36,367	1,242	51,165	103,990
Cash balances beginning of year	635,588	438,248	61,133	448,764	1,583,733
Cash balances end of year	\$ 650,804	474,615	62,375	499,929	1,687,723
Cash Basis Fund Balances					
Restricted					
Debt Service	\$ 4,158	-	-	-	4,158
Unrestricted	646,646	474,615	62,375	499,929	1,683,565
Total cash basis fund balances	\$ 650,804	474,615	62,375	499,929	1,687,723

See notes to financial statements.

Exhibit E

City of Montezuma, Iowa

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Assets

Proprietary Funds

As of and for the year ended June 30, 2012

Total enterprise funds cash balances (Exhibit D)	\$ 1,687,723
Cash basis net assets of business type activities (Exhibit A)	\$ 1,687,723
Net change in cash balances (Exhibit D)	\$ 103,990
Change in cash balance of business type activities (Exhibit A)	\$ 103,990

See notes to financial statements.

Exhibit F

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Component Unit
As of and for the year ended June 30, 2012

	Municipal Light and Power Plant
Operating receipts:	
Charges for service	\$ 3,471,832
Total operating receipts	<u>3,471,832</u>
Operating disbursements:	
Business type activities	2,945,429
Total operating disbursements	<u>2,945,429</u>
Excess of operating receipts over operating disbursements	526,403
Non-operating receipts (disbursements):	
Rental income	7,200
Interest on investments	5,872
Miscellaneous	7,965
Miscellaneous expense	(9,465)
Debt service	(411,674)
Total non-operating disbursements	<u>(400,102)</u>
Excess of receipts over disbursements	<u>126,301</u>
Net change in cash balances	126,301
Cash balances beginning of year	<u>2,190,984</u>
Cash balances end of year	<u><u>\$ 2,317,285</u></u>
Cash Basis Fund Balances	
Reserved for debt service/improvements	\$ 731,263
CMMPA required deposit	199,000
Unreserved	<u>1,387,022</u>
Total cash basis fund balances	<u><u>\$ 2,317,285</u></u>

See notes to financial statements.

Exhibit G

City of Montezuma, Iowa
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Agency</u>
Assets	
Cash and investments	<u>\$ (14,952)</u>
Total assets	<u>(14,952)</u>
Liabilities	
Accounts payable	<u>(14,952)</u>
Total liabilities	<u>(14,952)</u>
Net assets	<u><u>\$ -</u></u>

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Montezuma is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, recycling and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Montezuma (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Montezuma Municipal Light and Power Plant is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board and Poweshiek County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories/components:

Non-expendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

Special Revenue:

The Local Option Sales Tax Fund is used to account for local option sales tax collections and expenditures as specified in the election to collect those taxes.

The Road Use Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Gas Fund accounts for the operation and maintenance of the City's gas system.

The Enterprise, Recycling Fund accounts for the operation and maintenance of the City's recycling program.

C. Measurement Focus and Basis of Accounting

The City of Montezuma maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financials statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Included in the June 30, 2012 general fund cash is \$30,309 in library donations and earnings and \$3,500 in library endowment donations, both held in trust by the Montezuma Community Foundation. The \$30,309 is available for use by the library whenever requested by the library board. The \$3,500 may not be spent; only earnings from those contributions will be available.

At June 30, 2012 the City had the following investments:

Type	Carrying Amount	Fair Value
Certificate of deposit	\$ 45,000	45,000
Certificate of deposit	20,000	20,000
Certificate of deposit	37,998	37,998
Certificate of deposit	24,929	24,929
Certificate of deposit	33,546	33,546
Total	<u>\$ 161,473</u>	<u>161,473</u>

In addition, the City had investments in the Iowa Public Agency Trust which are valued at an amortized cost of \$1,935,243 pursuant to Rule 2 a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and water revenue bonds are as follows:

Year ending June 30,	General Obligation Notes		Revenue Bonds Water		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 170,000	37,976	76,000	49,913	246,000	87,889
2014	175,000	31,091	79,000	47,633	254,000	78,724
2015	185,000	23,916	81,000	45,263	266,000	69,179
2016	190,000	16,285	84,000	42,833	274,000	59,118
2017	200,000	8,400	87,000	40,313	287,000	48,713
2018	-	-	89,000	37,703	89,000	37,703
2019	-	-	92,000	35,033	92,000	35,033
2020	-	-	95,000	32,273	95,000	32,273
2021	-	-	98,000	29,423	98,000	29,423
2022	-	-	102,000	26,483	102,000	26,483
2023	-	-	105,000	23,423	105,000	23,423
2024	-	-	108,000	20,273	108,000	20,273
2025	-	-	112,000	17,033	112,000	17,033
2026	-	-	116,000	13,673	116,000	13,673
2027	-	-	119,000	10,193	119,000	10,193
2028	-	-	123,000	6,623	123,000	6,623
2029	-	-	97,769	2,933	97,769	2,933
Total	\$ 920,000	117,668	1,663,769	481,021	2,583,769	598,689

A. General Obligation Bonds

The City of Montezuma issued \$1,615,000 in general obligation bond in September, 2007 for the purpose of carrying out a street improvement project. The total principal and interest payments remaining on the general obligation bond issue is \$1,037,668, payable through 2017.

B. Revenue Notes

The City of Montezuma entered into a Water Revenue loan and Disbursement agreement with the State Revolving Fund. The City has pledged future water customer receipts, net of specified operating disbursements to repay this loan. The April 1, 2011 loan is being received by the City as funds are expended with a maximum loan of \$2,125,000 available. As of June 30, 2012, \$1,663,769 had been extended. The interest rate over the loan's life is 3%. The bonds mature June 1, 2032. Interest payments are payable semiannually on June 1 and December 1 of each year, commencing June 1, 2011. The principal is due and payable annually commencing June 1, 2013, and annually thereafter. The final repayment schedule has not been set since the loan proceeds are still being disbursed. We have used the estimated schedule produced by the Iowa Finance Authority to list the timing of estimated payments equal to the current loan balance.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts with the Enterprise funds for the purpose of making the note principal and interest payments when due.

- (c) All funds remaining in the water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue surplus account within the Enterprise Funds. This account is to be used to transfer money to the sinking fund whenever necessary to prevent or remedy a default in the payment of principal or interest. As long as the sinking fund has the full amounts required any balance in the surplus fund is available to be used as needed for the operation of the utility.

Total interest and fees charged to expense during the fiscal year was \$73,168 and \$5,812 respectively. None was associated with product financing arrangements or capitalized enterprise fund assets.

(4) Pension and Retirement Benefits

The City of Montezuma contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010, were \$35,144, \$27,798, and \$24,542, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – There are three medical/prescription drug plans which provide benefits for retirees and their spouses. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

There are seven active employees in the City's plan, three active employees in the Water department's plan and four active employees in the Electric Utility's plan at year end. There were no early retirees in any of the plans.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums are as follows:

	Single	Employee/Spouse	Family
City	\$ 657	1,345	2,015
Water Department	657	1,345	2,015
Electric Utility	657	1,345	2,015

The same monthly premiums apply to retirees, which they are required to pay in full. For the year ended June 30, 2012, the City contributed \$128,854 and plan members eligible for benefits contributed \$0 to the plan. The Water Department contributed \$64,510 and plan members eligible for benefits contributed \$0 to the plan. The Electric Utility contributed \$65,421 and plan members contributed \$0 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2012 is \$25,046. This liability has been computed based on rates in effect at June 30, 2012.

(7) Interfund Transfers

There were no interfund transfers during the year ended June 30, 2012.

(8) Transactions Between the City and the Component Unit

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ (26,462)	-
Water Dept. Billing/Meter Reading	(25,849)	-
Gas Dept. Electric Use	(1,715)	-
Gas Dept. Billing/Meter Reading	(29,601)	-
General City Electric Use	(62,701)	-
Computer Maintenance	(5,346)	-
Power Plants - Taxes in lieu	-	65,651
Totals	<u>\$ (151,674)</u>	<u>65,651</u>

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,786 during the year ended June 30, 2012.

(10) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$58,208.75.

The pool uses reinsurance excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, law enforcement, and public officials wrongful acts liability risks up to \$3,000,000 per claim.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus and reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The City does not report liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2012, no liability has been recovered in the City's financial statements. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from IMWCA for coverage associated with workers compensation in the amount of \$850,000 per claim. Excess coverage is provided through reinsurance with no cap per section 85 of the Iowa Code. An employee blanket bond in the amount of \$50,000 is covered by Old Republic Surety.

(11) Commitments and Contingencies

On December 6, 2006, the City of Montezuma Light & Power plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. There is a contingent liability for \$262,215, or 0.88% of a \$29,902,146 investment by CMMPA. As of June 30, 2012, none of this had been paid. To date revenues have exceeded the costs on this investment so CMMPA has not required the funds, but we are committed to this payment if needed.

(12) Subsequent Events

In October 2012, the City issued \$1,215,000 of General Obligation Corporate Purpose and Refunding Bonds, Series 2012A. The City plans to use approximately \$610,000 for a housing development project with the remaining net proceeds to be used toward refunding the 2007 General Obligation Street Improvement Notes which are callable for early redemption on any date on or after June 1, 2014.

Other Information

City of Montezuma, Iowa
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances
Budgetary and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2012

	Budgeted Amounts					
	Governmental Funds Actual	Proprietary Funds Actual	Net	Original	Final	Final to Net Variance
Receipts:						
Property tax	\$ 577,547	-	577,547	577,000	577,000	547
Tax increment financing collections	-	-	-	-	-	-
Other city tax	150,447	-	150,447	129,553	129,553	20,894
Licenses and permits	4,325	-	4,325	2,475	2,475	1,850
Use of money and property	6,748	14,166	20,914	4,500	4,500	16,414
Intergovernmental	163,146	414,383	577,529	632,000	632,000	(54,471)
Charges for services	89,422	5,087,422	5,176,844	4,988,604	4,988,604	188,240
Private contributions	64,319	-	64,319	-	-	64,319
Miscellaneous	103,632	16,889	120,521	100,000	122,625	(2,104)
Total receipts	1,159,586	5,532,860	6,692,446	6,434,132	6,456,757	235,689
Disbursements:						
Public safety	281,151	-	281,151	302,275	324,900	43,749
Public works	355,719	-	355,719	356,275	441,275	85,556
Health & Social Services	-	-	-	-	-	-
Culture and Recreation	134,210	-	134,210	152,528	152,528	18,318
Community & economic development	-	-	-	-	15,200	15,200
General government	194,967	-	194,967	200,725	200,725	5,758
Debt service	204,876	-	204,876	205,576	205,576	700
Capital projects	-	-	-	-	-	-
Business type activities	-	6,565,442	6,565,442	6,736,125	8,486,125	1,920,683
Total disbursements	1,170,923	6,565,442	7,736,365	7,953,504	9,826,329	2,089,964
Excess (deficiency) of receipts over (under) disbursements	(11,337)	(1,032,582)	(1,043,919)	(1,519,372)	(3,369,572)	2,325,653
Other financing sources, net	(1,796)	1,262,873	1,261,077	1,579,000	3,329,000	2,067,923
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(13,133)	230,291	217,158	59,628	(40,572)	4,393,576
Balances beginning of year	2,463,962	3,774,717	6,238,679	6,899,532	6,899,532	(660,853)
Balances end of year	\$ 2,450,829	4,005,008	6,455,837	6,959,160	6,858,960	3,732,723

See accompanying independent auditor's report.

City of Montezuma, Iowa
Notes to Other Information - Budgetary Reporting
June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues and other sources by \$1,772,625 and disbursements by \$1,872,825. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

Supplementary Information

Schedule 1

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Non-Major Governmental Funds
As of and for the year ended June 30, 2012

	<u>Special Revenue</u>		
	Urban Renewal		
	Tax Increment	Permanent Fund	Total
Receipts:			
Uses of Money & Property	\$ -	-	-
Total receipts	-	-	-
Disbursements:			
Operating:			
Debt Service	-	-	-
Total disbursements	-	-	-
Excess (deficiency) of receipts over (under) disbursements	-	-	-
Other financing sources (uses):			
Reimbursement of prior year TIF revenues	(1,796)	-	(1,796)
Net change in cash balances	(1,796)	-	(1,796)
Cash balances beginning of year	1,796	3,500	5,296
Cash balances end of year	\$ -	3,500	3,500
Cash Basis Fund Balances			
Nonspendable - permanent endowment library	\$ -	3,500	3,500
Total cash basis fund balances	\$ -	3,500	3,500

See accompanying independent auditor's report.

Schedule 2

City of Montezuma, Iowa
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest & Fees Paid	Interest Due and Unpaid
General obligation bonds:									
Street	9/1/2007	3.8-4.2%	\$1,615,000	\$ 1,080,000		160,000	920,000	44,876	3,165
				<u>\$ 1,080,000</u>	<u>-</u>	<u>160,000</u>	<u>920,000</u>	<u>44,876</u>	<u>3,165</u>
Water Revenue Notes:									
SRF-Series 2011	4/1/2011	3.00%	Max \$2,125,000	\$ 400,896	1,262,873	-	1,663,769	34,104	4,158
				<u>\$ 400,896</u>	<u>1,262,873</u>	<u>-</u>	<u>1,663,769</u>	<u>34,104</u>	<u>4,158</u>

Schedule 3

City of Montezuma, Iowa
Bond and Note Maturities
Year ended June 30, 2012

Year Ending June 30,	General Obligation bonds		SRF	
	Street		Water Revenue Bonds	
	Issued 9-1-2007		Issued 4-1-2011	
	Interest Rates	Amount	Interest Rates	Amount
2013	4.05%	170,000	3.00%	76,000
2014	4.10%	175,000	3.00%	79,000
2015	4.13%	185,000	3.00%	81,000
2016	4.15%	190,000	3.00%	84,000
2017	4.20%	200,000	3.00%	87,000
2018			3.00%	89,000
2019			3.00%	92,000
2020			3.00%	95,000
2021			3.00%	98,000
2022			3.00%	102,000
2023			3.00%	105,000
2024			3.00%	108,000
2025			3.00%	112,000
2026			3.00%	116,000
2027			3.00%	119,000
2028			3.00%	123,000
2029			3.00%	97,769
		<u>\$ 920,000</u>		<u>1,663,769</u>

See accompanying independent auditor's report.

Schedule 4

City of Montezuma, Iowa
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund
June 30, 2012

	Balance			Balance End of
	Beginning of Year	Additions	Deductions	Year
Assets				
Cash	\$ 1,203	-	16,155	(14,952)
Liabilities				
Accounts payable	\$ 1,203	-	16,155	(14,952)

See accompanying independent auditor's report.

City of Montezuma, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
For the Last Ten Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Receipts:										
Property tax	\$ 577,547	\$ 543,152	556,514	538,865	508,001	480,742	476,022	459,199	431,436	414,419
Tax increment financing collections	-	6,779	47,711	48,184	47,695	45,124	43,733	46,885	49,794	47,658
Other taxes	150,447	130,827	130,600	128,568	166,417	-	-	986	-	-
Licenses & permits	4,325	2,913	2,485	2,725	2,830	-	-	-	-	-
Use of money and property	6,748	17,806	10,519	28,516	82,230	75,417	41,662	29,397	19,891	17,747
Intergovernmental	163,456	145,670	194,512	245,238	353,343	121,433	122,541	122,047	136,597	159,142
Charges for service	89,422	80,913	88,211	97,647	81,596	82,222	89,033	74,911	88,461	83,344
Miscellaneous	167,951	142,295	146,363	180,486	153,127	97,860	103,531	481,620	77,702	55,858
Total	<u>\$ 1,159,896</u>	<u>1,070,355</u>	<u>1,176,915</u>	<u>1,270,229</u>	<u>1,395,239</u>	<u>902,798</u>	<u>876,522</u>	<u>1,215,045</u>	<u>803,881</u>	<u>778,168</u>
Disbursements:										
Operating:										
Public safety	\$ 281,151	178,712	183,285	286,586	325,039	164,930	260,458	159,325	178,665	150,188
Public works	355,719	326,212	224,066	270,817	259,360	241,578	193,131	201,900	262,332	225,916
Health and social services	-	-	-	-	-	2,750	-	2,500	6,730	-
Culture and recreation	134,210	143,730	186,233	117,837	114,126	108,146	126,386	399,413	121,897	80,391
Community & economic development	-	-	-	-	151,878	-	-	-	-	-
General government	194,967	141,931	114,141	106,235	109,311	104,242	103,364	100,203	102,222	95,043
Debt service	204,876	251,373	282,731	285,994	334,911	165,895	169,962	169,803	-	124,620
Capital projects	-	-	-	358,000	1,405,527	-	-	-	-	-
Total	<u>\$ 1,170,923</u>	<u>1,041,958</u>	<u>990,456</u>	<u>1,425,469</u>	<u>2,700,152</u>	<u>787,541</u>	<u>853,301</u>	<u>1,033,144</u>	<u>671,846</u>	<u>676,158</u>

See accompanying independent auditor's report.

City of Montezuma, Iowa
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	10-WS-079	<u>425,823</u>
U.S. Environmental Protection Agency:			
Iowa Finance Authority:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	3353-09a.600	<u>231,686</u>
Total			<u>\$ 657,509</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Montezuma, Montezuma, Iowa and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* . Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



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Van Maanen, Sietstra & Meyer, PC

CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed In Accordance with
Government Auditing Standards**

To the Honorable Mayor and Members of the City Council
City of Montezuma
Montezuma, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 23, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Montezuma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Montezuma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Montezuma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Montezuma's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item (A) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Montezuma's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Montezuma's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Montezuma and other parties to whom the City of Montezuma may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

October 23, 2012



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and Members of the City Council:

Compliance

We have audited the City of Montezuma, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City of Montezuma's major federal programs for the year ended June 30, 2012. The City of Montezuma's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Montezuma's management. Our responsibility is to express an opinion on the City of Montezuma's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Montezuma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Montezuma's compliance with those requirements.

In our opinion, the City of Montezuma complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City of Montezuma is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Montezuma's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A to be a material weakness.

The City of Montezuma's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit the City of Montezuma's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Montezuma and other parties to whom the City of Montezuma may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

October 23, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office Management and Budget Circular A-133, Section .510(a).
- (g) The major program is as follows:
 - CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Montezuma did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

**CFDA Number 14.228: Community Development Block Grants/State's Program and non-Entitlement Grants in Hawaii
Pass-through Grant ID Number: 10-WS-079
Federal Award Year: 2012**

**U.S. Department of Housing and Urban Development
Passed through the Iowa Economic Development Authority**

**CFDA Number 66.468: Capitalization Grants for Drinking Water State Revolving Funds
Pass-through Grant ID Number: 3353-09a.600
Federal Award Year: 2012
U.S. Environmental Protection Agency
Passed through the Iowa Finance Authority**

III-A Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

Part IV: Other Findings Related to Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2012 did not exceed the budget.
- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City of Montezuma money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2012 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Jim's Heating and Air Conditioning	Heating System & Repairs	\$2,786

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions may represent conflicts of interest since total transactions with the individual was more than \$1,500 during the fiscal year.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds and Notes - The City of Montezuma has established proper accounts as required by the City revenue note resolution.